

# **ANNUAL REPORT**

**for the year ended September 30, 2004**

## **INTRODUCTORY SECTION**

**RED RIVER AUTHORITY OF TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**for the year ended September 30, 2004**

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## **APPENDIX N-1**





# Red River Authority of Texas

CLIFF A. SKILES, JR., DVM, President, Hereford  
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CAROL C. GUNN, PH.D., Secretary, Wichita Falls  
LISA C. BRENT, Asst. Secretary, Amarillo  
GEORGE W. ARRINGTON, Canadian  
NATHAN J. (JIM) BELL, IV, Paris  
JANIE MATTESON, DeKalb  
PATRICIA C. PEALE, Lake Kiowa  
W.F. (BILL) SMITH, JR., Quanah

CURTIS W. CAMPBELL, General Manager  
SHARON A. FAVER, Executive Assistant  
GREGG MILLER, Controller  
HENRY C. WIED, JR., Director of Operations

December 1, 2004

**The Honorable President and Members  
of the Board of Directors  
Red River Authority of Texas**

Board Members:

The Comprehensive Annual Financial Report of the Red River Authority of Texas for the fiscal year ended September 30, 2004 is submitted herewith. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority.

We believe the data contained herein are accurate in all material respects; that it clearly discloses the financial position and results of operations of the Authority as measured by the financial activity of its various divisions; and that all information necessary to enable the reader to gain the maximum benefit and understanding of the Authority's fiscal year activities and related costs are presented on a fund basis in the enclosed financial statements.

The Comprehensive Annual Financial Report is presented in three major sections to aid the reader in obtaining a clear understanding of the Authority and its activities. These sections are titled Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, an organizational chart, a description of the Authority's operating divisions highlights of activities for the period ending, the independent auditor's report, and the Management Discussion and Analysis. The Financial Section includes the basic financial statements, notes to the financial statements, non-major enterprise funds, internal service funds, budget comparison, Texas supplementary information, auditor's management letter, and supplemental schedules. The Statistical Section includes selected historical financial information, operations summaries, and demographic information associated with the Authority's activities of primary interest.

## **REPORTING ENTITY**

The Red River Authority of Texas was created in 1959 by Acts of the 56<sup>th</sup> Texas Legislature as a political subdivision of the State, a body politic and corporate under Article XVI, Section 59 of the Texas Constitution. The Authority's Enabling Legislation, Article 8280-228, Vernon's Annotated Texas Civil Statutes (VATCS), enumerates the powers and duties granted under the General and Special Laws of the State to fulfill its purpose. Additionally, the Authority functions under certain provisions of the Texas Water Code, Chapter 49. The Authority's mission is the orderly conservation, reclamation, protection, and development of the natural resources within the Red River Basin for the beneficial use of the public.

## **REPORTING ENTITY**, Continued

The Authority's territorial jurisdiction encompasses all of forty-three Texas counties lying within and adjacent to the watershed of the Red River and its tributaries upstream from the northeast corner of Bowie County. In 1981 the Legislature divided the Authority's territorial jurisdiction into three geographical regions based on population with gubernatorial appointment of three directors to serve from each region. Refer to **Figure 1 – Red River Watershed Vicinity Map**.

The Red River Industrial Development Authority was authorized by the Board of Directors in July 1979 under the terms of the Texas Development Corporation Act of 1979. The Red River Industrial Development Authority is a separate entity of the Red River Authority of Texas and is authorized to act on behalf of the Authority for the specific purpose of promoting economic development of commercial, industrial, and manufacturing enterprises for public welfare within the geographical confines of the Red River Basin in Texas. Financial information concerning the Red River Industrial Development Authority can be found in the Notes to the Financial Statements, Appendix N-5, nonmajor enterprise funds as an integral part of the financial statements.

## **GOVERNING BODY**

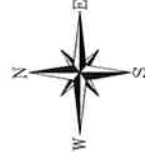
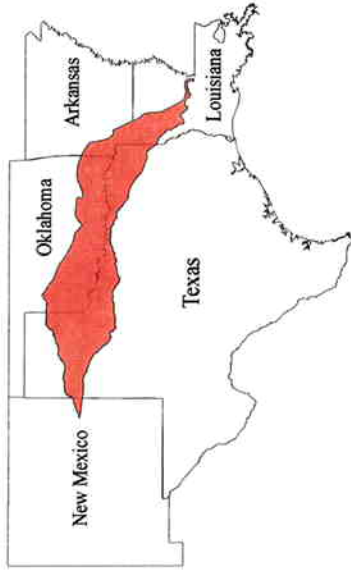
The Authority's governing body is composed of a nine-member Board of Directors, all of whom are appointed by the Governor, confirmed by the Senate, must be a legal voter, a property taxpayer, and a resident in the Authority's jurisdiction. Each Director serves a six-year staggered term. The Directors are organized by electing from their membership a President, Vice-President, Secretary, and Assistant Secretary. One Director is appointed from each of the three geographical regions to serve with the President on the Executive Committee. The Executive Committee functions as a policy, administrative, and fiscal oversight committee for all agency related activities. The Board of Directors administers all affairs of the Authority through a Board adopted Administrative Policy and a Board appointed chief executive officer in the position of General Manager.

## **ADMINISTRATION**

All fiscal and administrative functions are conducted from the general offices which are located in Suite 520 of the Hamilton Building at 900 Eighth Street, Wichita Falls, Texas. The General Manager is assisted by a professional staff of employees and consultants in the accomplishment of his duties, and is solely responsible to the Board of Directors for the proper implementation of all policies and the successful administration of the Authority. The Executive Administration is the upper-level management team that consists of three interactive branches of administration for the orderly conduct of all facets of the Authority's activities. The branches are the General Division Branch, Fiscal Services Branch, and General Operations Branch. Each branch is responsible for providing team leadership, administrative, and technical services to each division or department of the Authority. The Executive Staff administers Board Policy and carries out the Authority's mission under a Board approved Strategic Management Plan. There were 27 full-time classified employees on the Authority's payroll on September 30, 2004. **Refer to the Organizational Chart** for details.

# RED RIVER WATERSHED

## Vicinity Map



10 0 10 20 30 40  
Graphic Scale in Miles

**1, 2, 3** Regional Boundaries  
**Red River Basin Boundary**

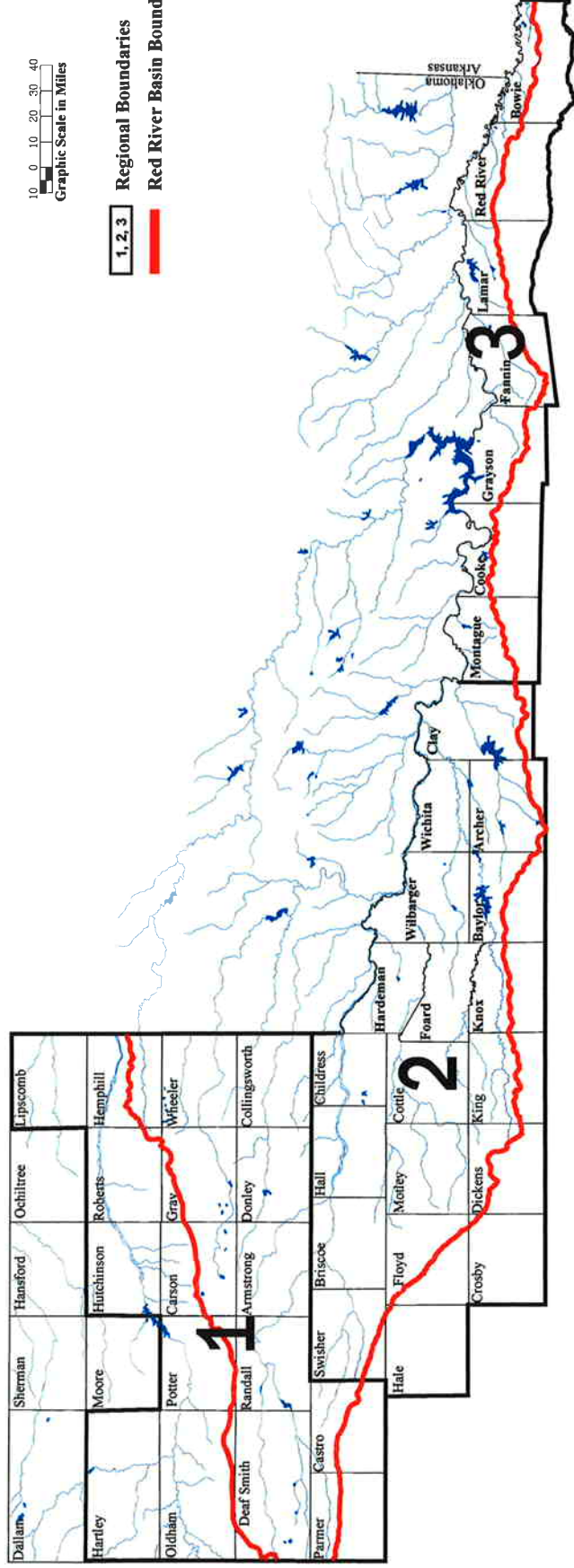
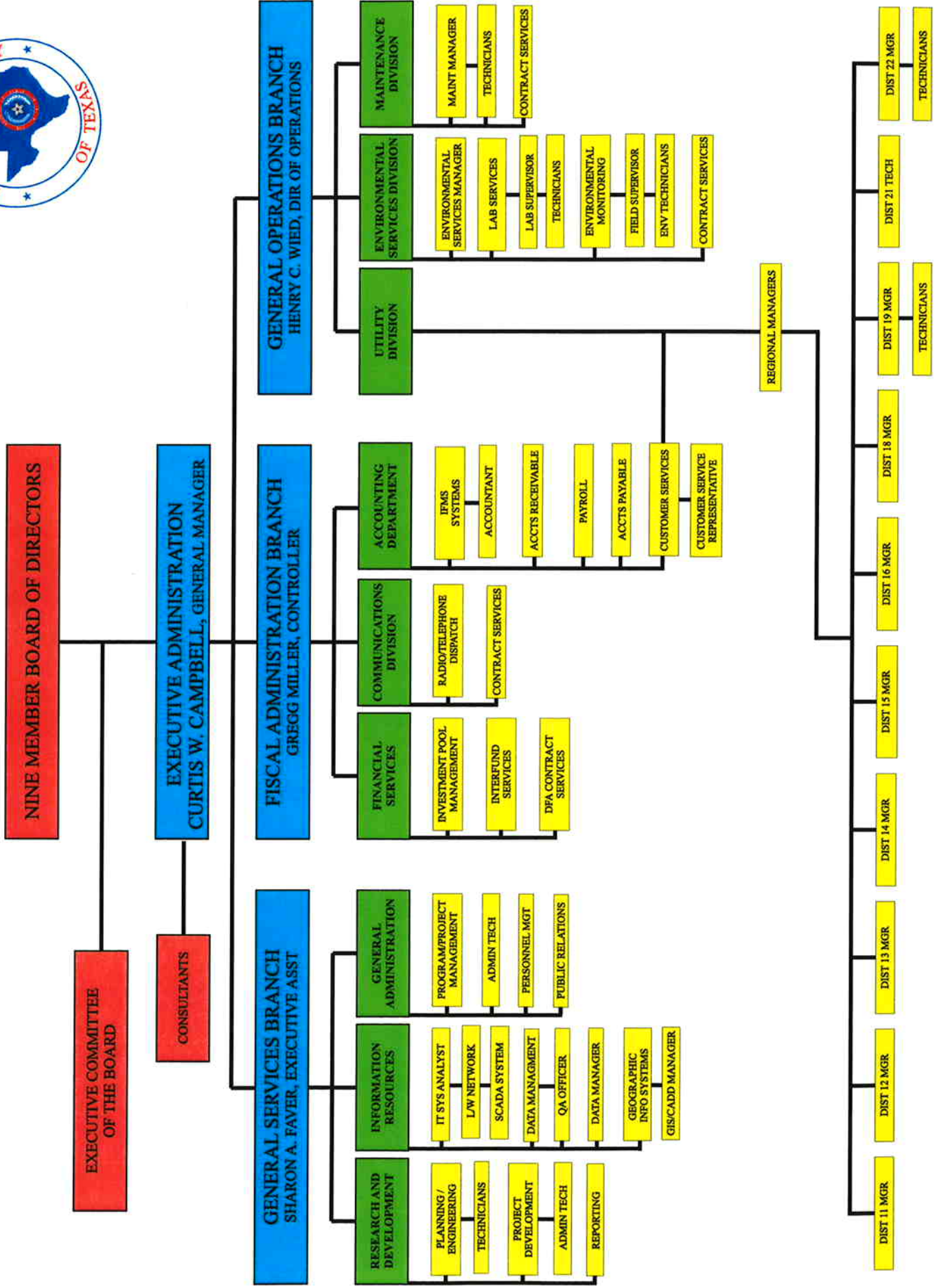


Figure 1



# ORGANIZATIONAL CHART



## **INTERNAL CONTROLS**

The Board of Directors and the Executive Administration of the Authority have placed an emphasis on the accuracy of its accounting system through the implementation of stringent internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding the safeguard of assets against loss and unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets, as well as those entrusted with its care. The concept of reasonable assurance recognizes that the cost of control should not exceed the expected benefits to be derived, and the evaluation of cost and benefits requires estimates and judgments on the part of management. All internal control evaluations occur within the described framework. Therefore, management is of the opinion that the Authority's internal controls adequately safeguard the assets and provide reasonable assurance of proper recording of all financial transactions, thereby producing an effective management tool for the conduct of the Authority's business activities.

## **BUDGETARY CONTROLS**

The Authority is not required under its Enabling Legislation to adopt an annual budget. However, as a prudent management tool, an annual budget for each division is prepared on a per fund basis and approved by the Authority's Board of Directors. These budgets do not constitute appropriations, but represent the projected revenues and expenditures as compared to actual of the previous year.

## **DEBT ADMINISTRATION**

The Authority does not have the power of taxation nor does it derive any of its revenues from taxes. Therefore, the Authority has no outstanding general obligation bonds. Outstanding revenue bonds at September 30, 2004 totaled \$5,456,000, and the obligations of the interest and sinking fund, bond reserve accounts, and repair and replacement fund were met.

## **CASH MANAGEMENT**

Cash, which was temporarily idle during the year, including debt retirement funds and operating funds, was invested in money market checking and savings accounts with the Authority's depository, and in short-term investments backed by agencies of the United States Government in accordance with a Board adopted Investment Policy and the Public Funds Investment Act, as amended. Interest earned during the fiscal year ended September 30, 2004 totaled \$153,852, a decrease of 5.8% from the previous fiscal year. Interest earnings consisted of \$87,633 on invested funds, which yielded approximately 2.0%, while \$66,219 of interest was earned through the Interfund Loan Program, which yielded 8.0% for the fiscal year ended. The dollar weighted average maturity of the portfolio for the period ending September 30, 2004 was 172 days.

The Authority is divided into nine proprietary funds in accordance with the guidelines set by the Governmental Accounting Standards Board (GASB) to properly govern and manage each segment of its various activities. The proprietary funds are subdivided into two major enterprise funds, two minor enterprise funds, and five internal service funds.

## OPERATIONS SUMMARY

The Enterprise Funds account for activities that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be recovered primarily through user fees and charges exclusive of a profit margin. The two major enterprise funds are the Utility Division Fund and the Environmental Services Division Fund. The two minor enterprise funds are the Direct Financing Arrangements Fund and Red River Industrial Development Authority Fund.

Revenues generated by the Authority's four Enterprise Funds totaled \$3,593,638 for the fiscal year ended September 30, 2004, a decrease of 0.9% over the previous fiscal year. Expenditures for the same period totaled \$3,462,833, an increase of 2.5% over the previous fiscal year. Refer to **Exhibit A-2 in Appendix N-4** for details.

**Utility Division** – The Utility Division is an enterprise fund which provides water and sewer services to approximately 10,000 people residing in a 15-county area of the Red River Basin. Refer to the **Utility Division Service Area Map, Figure 2** in the Utility Division section. The Authority owns and operates 37 independent community water systems consisting of more than 2,150 miles of transmission and distribution lines and 65 pumping facilities.

Water Revenue Bonds were issued to develop the Utility Division as a regional water supply service to rural communities within the basin. The bond ordinances require that fees and charges for services provided be set by the Board of Directors to pay the costs of operating and debt services. Because of the static growth of most of the systems, user rates are based on a five-year cash model designed to recover the actual cost of operating and debt services. Each system rate structure is evaluated annually to ensure financial stability and monitor trend relationships in water usage, operating expenses, repairs and maintenance, and projected capital improvement needs.

Total revenues received in the Utility Division for the fiscal year ended September 30, 2004 were \$3,181,598, an increase of 0.06% over the previous fiscal year. Expenditures incurred during the same period totaled \$3,055,340, an increase of 3.5% over the previous fiscal year.

The Utility Division produced a total of 595.0 million gallons (MG) of water and sold 420.2 million gallons (MG) for the fiscal year ended September 30, 2004. Unaccounted for water losses were reduced by 0.5 % as compared to the previous year. Refer to **Schedule 9, Figures 1 and 2** in the Statistical Section for monthly and annual historical water use trends.

In April 2004, the Board of Directors approved an increase in wholesale water rates which became effective June 1, 2004. In July 2004, the Board of Directors also approved an increase in the commercial water rates which became effective September 1, 2004. Both of these rate adjustments were necessary to cover the increasing costs of providing service to these accounts.

## OPERATIONS SUMMARY, Continued

The Utility Division's Drought Contingency Plan recorded one Alert-2 Critical Condition which resulted in mandatory water use restrictions on the Lake Arrowhead Water System. This alert was enacted November 2003 due to low lake levels created by the prolonged drought.

Major and minor capital improvements within the Utility Division to which the Authority provided financing for the fiscal year ending included the following:

In January 2004, the Board of Directors authorized capital improvement projects for the replacement of a six inch water line on the Medicine Mound Water System and the re-coating of a 100,000 gallon elevated tank and a 90,000 ground storage tank for the Preston Shores Water System. The Medicine Mound line replacement was completed in June 2004 at a cost of \$90,052. The Preston Shores improvements were also completed in June 2004 at a cost of \$160,603.

Other minor capital improvements consisted of repair and replacement of 1.8 miles of distribution line, installation and upgrade of pump station telemetry control units, accelerating the meter replacement program, repairing 342 main and service line leaks, and pumping facilities maintenance totaling \$183,263 during the fiscal year.

The Utility Division experienced an increase of eight service meters at the fiscal year ended September 30, 2004.

**Environmental Services Division** – The Environmental Services Division (ESD) is an enterprise fund with a fundamental purpose to evaluate, monitor, and develop management strategies to improve the natural resources within the Red River Basin. The ESD conducts routine investigations to identify and determine the possible causes of pollution to the streams and tributaries of the Red River in an effort to develop the best management practices or control measures needed to maintain and improve the quality of the available natural resources for the beneficial use of the public.

The ESD also supports a full-service water quality laboratory to provide analytical services for the general public, local, state, and federal entities. The ESD conducts regional assessments of water quality, water quality monitoring and analysis, pollution investigations, and provides local sponsorship for the development of pollution control or reclamation facilities designed to improve the natural resources within the basin.

## OPERATIONS SUMMARY, Continued

Total revenues for fiscal year ended September 30, 2004 were \$374,092, a decrease of 8.6% over the previous fiscal year. Expenditures for the same period totaled \$369,545, a decrease of 12.6% over the previous fiscal year.

In addition to the ESD providing administrative, technical, and analytical services on an as needed basis to municipalities within the basin, the Board of Directors has authorized the ESD to maintain and renew biennial contracts with the Texas Commission on Environmental Quality for services as described:

FY 2004 – 2005 Biennial Contract for Regional Assessment of Water Quality under the Texas Clean Rivers Program for an amended amount of \$675,916. This contract began on September 1, 2003 and expires on August 31, 2005 with \$313,893 being expended in FY 2004.

The ESD Laboratory continued expanding its capabilities and offering its services to outside entities, as well as providing vital water quality analysis services to the Utility Division. The laboratory provides support to the Clean Rivers Program and provides mandatory analysis in support of the Federal Safe Drinking Water Act requirements placed on all public water systems.

The ESD continues to respond to complaints from the general public and other state or federal agencies concerning any type of pollution to the environment within the Red River Basin. The Authority conducted one investigation with follow-up to a satisfactory resolve. No litigation was encountered during the year ended September 30, 2004.

**Direct Financing Arrangements (DFA)** – The DFA is an enterprise fund that provides financing of infrastructure for the Authority and contractual financing of projects to outside entities.

In performing direct financing arrangements, the Authority acts as an agent or intermediary for obtaining tax-exempt financing of water, wastewater, or pollution control facilities for third parties. In most cases, the Authority does not operate or maintain these facilities unless contracted to do so under special circumstances.

Revenues are received from the issuance of bonded indebtedness and from management fees charged for services provided. Issuance fees are a one-time charge, while management fees recur annually throughout the term of indebtedness. When these fees are received, they are recorded as revenue. The bonds are regarded as debts and responsibilities of the third parties on whose behalf they were issued. Since the debt is the sole obligation of the entity to which bonds were issued, the transaction is excluded from the Authority's financial statements, except for the contract receivable due the Authority.

## OPERATIONS SUMMARY, Continued

Total revenue received in the DFA for the period ended September 30, 2004 was \$37,025 as a result of management fees earned during the fiscal year.

The Red River Industrial Development Authority had no outside activity this fiscal year. The only revenue generated was \$923 earned on investments.

The Internal Service Funds provide goods and services to the Enterprise Funds, as well as each other. There are five Internal Service Funds employed by the Authority. They include the General Division Branch, Interfund Loan Program, Maintenance Division, Communications Division, and Motor Pool.

Revenues are derived through charges to the funds which receive the services provided and from contract services provided to outside entities. These fees are evaluated annually and adjusted as necessary to maintain equity in the charges for each type of service performed.

Revenues received by the Authority's five Internal Service Funds totaled \$1,137,827 for the fiscal year ended September 30, 2004, a decrease of 1.1% from the previous fiscal year. Expenditures incurred during the same period totaled \$915,488, a decrease of 3.5% from the previous fiscal year. Refer to **Exhibit C-1 in Appendix N-5** for details.

**General Division (GD)** – The General Division functions through one internal service fund, the general fund. The GD's primary purpose is to provide administrative resources and supervision of all Authority-related activities, both internally to other divisions or departments, and externally with outside agencies or entities within the limits of the Enabling Legislation and Board Policy. The GD provides personnel administration, computerized information resources, risk management, research and development, project management, and external contract administration for all Authority functions.

The GD is also responsible for initiating planning, engineering, and project development for all other divisions and departments of the Authority and conducts its activities in accordance with the guidelines set out in the general policy. Ongoing planning functions include maintenance of a Regional Master Plan for the Red River Basin, regional water resource planning, and general project planning and development. Other services provided through the GD consist of geographical information system development, cartographic mapping, and internet services.

## **OPERATIONS SUMMARY**, Continued

Revenues are derived by charging an administrative fee relative to personnel labor and equipment utilized in the conduct of the Authority's routine business activities. The administrative fee is determined through a uniform Indirect Cost Rate based on historical time and equipment attributed to the administrative services being provided in an amount not to exceed 25% of a fund's non-reimbursed expense or 60% of direct labor costs, whichever is more equitable for the type of service provided. Cost for services provided to outside entities are computed and recovered through contracts for services based on actual labor, equipment, and materials utilized in the performance of the individual contract.

In 2002 the Board of Directors authorized the GD to enter into a contract with the Texas Water Development Board (TWDB) to receive funds in the amount of \$456,080 to oversee, prepare, and update the Regional Water Plan for Region B to be presented to the TWDB in January 2006. During Fiscal Year 2003 – 2004, revenue was \$169,469 for work completed for the TWDB.

Total revenues received in the GD were \$781,964 for the fiscal year ended September 30, 2004, an increase of 0.1% over the previous year. Expenditures totaled \$620,440 for the same period, a decrease of 9.7% over the previous fiscal year.

**Interfund Loan Program** – The Interfund is an internal service fund designed to provide financial assistance to other divisions or departments for acquisition of assets, major repairs and replacements, and minor capital expenditures in the form of short-term debt with repayment schedules to include principal plus interest by the borrower.

As of fiscal year ending September 30, 2004, the Interfund Loan Program managed an outstanding debt balance of \$636,566 and the Board of Directors authorized six new Interfund notes, which totaled \$346,310. Interest earned for the fiscal year ended was \$38,095, a decrease of 41% over the previous fiscal year. Total cost of service for the Interfund was \$6,622 for the fiscal year ended September 30, 2004, an increase of 2.6% over the previous fiscal year. The 41% decrease in interest earned is due to 17 individual loans maturing in fiscal year 2004.

**Maintenance Division** – The Maintenance Division is an internal service fund designed to provide utility maintenance and construction primarily for the Utility Division. The division provides capital improvements to facilities, distribution line installations, as well as routine and emergency repairs. All capital improvements and repairs are conducted under uniform design and specifications prepared under guidance of the General Specification Manual. The division maintains its own equipment and an inventory of materials and supplies necessary to support an ongoing preventive maintenance and minor capital improvement program for the Utility Division.

## OPERATIONS SUMMARY, Continued

In July 2004, a new motor was installed in the three-ton maintenance truck at a cost of \$12,188. The replacement motor is expected to extend the life of the truck by at least five years.

Total revenue received in the Maintenance Division was \$129,954 for the fiscal year ended September 30, 2004, a decrease of 0.16% over the previous year. Expenditures totaled \$133,907 for the same period, an increase of 16.4% from the previous fiscal year. This increase in expenditures was mainly due to the increase in the cost of gasoline and repairs.

**Communications Division** – The Communications Division is an internal service fund that provides radio communications and dispatch services to all field operations and personnel engaged in business activities of the Authority. Most communication traffic relates to access and maintenance of utility service records maintained by the accounting department and is essential for the remote operations over the large geographical service area. The Communications Division provides supervised control and data acquisition (SCADA) on behalf of the Utility Division and Environmental Services Division. SCADA is a telemetry system utilized for the purpose of transmitting pertinent data essential to key management operations of the Authority.

User fees are determined based on amortized capital cost and maintenance of equipment needed to provide reliable communications throughout the service area and are recognized as revenue received from the other divisions utilizing the services. The Communications Division also receives revenue from the lease of communication facilities through contracts with seven outside entities.

Total revenue received in the Communications Division was \$48,485 for this fiscal year, an increase of 14.8% over the previous year. Expenditures totaled \$14,731 for the same period, an increase of 21% over the previous fiscal year. The increase in expenditures was primarily due to an increase in maintenance costs.

**Motor Pool** – The Motor Pool is an internal service fund that provides for the use of motor vehicles and equipment to other divisions of the Authority. Revenues are received from the divisions utilizing the vehicles based on the amortized capital cost and maintenance in the form of a uniform lease program.

The Motor Pool maintains a rolling stock of 20 vehicles with an average replacement rotation of five per year. The Board of Directors accepted bids and purchased three 2004 ½-ton pickups for a total of \$46,103.

Total revenues received in the Motor Pool were \$111,205 for the fiscal year ended September 30, 2004, a decrease of 9.7% over the previous year. Expenditures totaled \$139,788 for the same period, an increase of 18.5% over the previous fiscal year. The increase in expenditures for the motor pool was due to an increase in both fuel and depreciation.



## **GOALS**

### **A. Conservation of Water Resources**

1. Maintain a uniform water conservation program and promote its applications to the public;
2. Continue to inventory the water resources and their availability for public use;
3. Expand public education programs with emphasis on water resource conservation and improved management practices.

### **B. Reclamation of Water Resources**

1. Update the plan to reduce natural pollution within the basin through the federal Red River Basin Chloride Control Project;
2. Maintain a plan to reduce man-made pollution within the basin through cooperative efforts with other state and federal agencies, municipalities, and industries;
3. Expand water quality monitoring activities through the basinwide water quality monitoring network and attendant information repository.

### **C. Development of Resources for Beneficial Use of the Public**

1. Continual update of the Master Plan for the Red River Basin;
2. Enhance the Facility Management Plan for expansion of public utility services;
3. Provide alternative financing for qualified public works projects;
4. Continue to provide contract services to entities throughout the basin in areas of public facility operations, maintenance, and financing.

## GOALS, Continued

### **D. Protection of Water Resources**

1. Enhance the Public Participation and Education Plan with programs promoting local environmental awareness of issues affecting the water resources within the Red River Basin;
2. Enhance the basinwide water quality management program through expansion of the Environmental Services Division's water quality laboratory and analytical services provided;
3. Continue to identify possible causes and effects of pollution to the receiving waters of the basin and develop feasible means for control, abatement, or remediation.

## AUDIT REQUIREMENTS

The Enabling Legislation (Article 8280-228, Section 9, VATCS) requires an annual audit of the Authority's records by a certified public accountant as selected by the Board of Directors within 135 days after the fiscal year ending. This requirement has been complied with and the Auditor's opinion is included in this report.

Respectfully submitted,

---

**Gregg Miller**  
Controller

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**Henry C. Wied, Jr.**  
Director of Operations

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**Curtis W. Campbell**  
General Manager

## **APPENDIX N - 2**

# **Hupp • Bauer • Hanson & Lewis**

A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITOR'S REPORT**

Donald J. Hupp, CPA

Joseph D. Bauer, CPA, CSEP

Barbara L. Hanson, CPA

Craig A. Lewis, CPA

Board of Directors

Red River Authority of Texas

719 Scott Avenue, Suite 200

Wichita Falls, Texas 76301

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Fax: 940-767-0136

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Red River Authority of Texas as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Red River Authority of Texas management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Red River Authority of Texas, as of September 30, 2004, the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2004, on our consideration of the Red River Authority of Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages two through eight, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Red River Authority of Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and the accompanying information listed as supplemental schedules and statistical information in the tables of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the accompanying information listed as supplemental schedules and statistical information in the table of contents, except for that portion marked "unaudited" on which we express no opinion have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 1, 2004

## **APPENDIX N - 3**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Red River Authority of Texas, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page vi of this report.

### **Financial Highlights**

- The assets of the Red River Authority of Texas exceeded its liabilities at the close of the most recent fiscal year by \$9,498,069 (net assets). Of this amount, \$6,138,261 (unrestricted net assets) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's total net assets increased by \$388,293.
- The Authority's total debt decreased by \$111,339 (2.2%) during the current fiscal year. This decrease is the net of bond principal maturities net of bond amortization of \$288,849 and an increase in total interfund loans of \$177,510.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Red River Authority of Texas' basic financial statements. The Authority's basic financial statements comprise two components: fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Fund financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be put into one category – proprietary funds.

**Proprietary Funds.** The Authority maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the basic financial statements. The Authority uses enterprise funds to account for its two major funds, the Utility Division and the Environmental Services Division. The Internal Service Funds provide goods and services to the Enterprise Funds, as well as each other. There are five Internal Service Funds employed by the Authority. They include the General Division, Interfund Loan Program, Maintenance Division, Communications Division, and Motor Pool.

Revenues are derived through charges to the funds which receive the services provided and from contract services provided to outside entities. These fees are evaluated annually and adjusted as necessary to maintain equity in the charges for each type of service performed.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**, Continued

The proprietary fund financial statements provide separate information for the Utility Division Fund and for the Environmental Services Division Fund, both of which are considered to be major funds of the Authority. The Direct Financing Arrangements Fund and the Industrial Development Fund, because of their size, are considered minor funds and are combined in the basic financial statements. All five internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in **Exhibits C-1 through C-3 in Appendix N-5** in this report.

The basic proprietary fund financial statements can be found on **pages 9-13** of this report.

**Notes to the Basic Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the basic financial statements can be found on **pages 14-38** of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found in **N-5 on pages 33-36** of this report.

The combining statements referred to earlier in connection with nonmajor enterprise funds and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found in **Exhibits B and C on pages 39-47** of this report.

### **Authority-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$9,498,069 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets (29.93%) reflects its investment in capital assets (e.g., land building, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services to customers, consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

### NET ASSETS

Fund	Balance September 30, 2003	Change	Balance September 30, 2004
Utility Division Fund	\$ 3,571,483	\$ 161,407	\$ 3,732,890
Environmental Services Fund	188,291	4,547	192,838
Other Enterprise Funds	38,750	0	38,750
Internal Service Funds	5,311,252	222,339	5,533,591
Total Net Assets	\$ 9,109,776	\$ 388,293	\$ 9,498,069

An additional portion of the Authority's net assets (5.45%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$6,138,261) may be used to meet the Authority's ongoing obligations to constituents and creditors.

At the end of the current fiscal year, the Authority is able to report positive balances in both categories of net assets, both for the Authority as a whole, as well as for its separate internal service and business-type activities, except for a minor deficit in the Maintenance Division Fund. The same situation held true for the prior fiscal year.

The Authority's net assets increased by \$388,293 during the current fiscal year. This increase represents an overall decrease in ongoing expenses.

**Business-Type Activities.** Business-type activities increased the Authority's net assets by \$165,954, accounting for 43% of the total growth in the Authority's net assets. Key elements of this increase are as follows:

1. Charges for services for business-type activities decreased by 13.27 %, with the primary decrease being in ESD contract revenues. Revenues increased for lab fees by 14.08%. Water and Sewer sales decreased by 0.34%. Together, these factors account for the \$41,266 decrease in charges for services for the Enterprise Funds.
2. Capital contributions were a revenue source for the Utility Division during the current fiscal year, producing \$35,149 in revenue. This contribution is for infrastructure in the Brandon Subdivision in the Preston Shores Water System.
3. Investment earnings increased by \$2,765 for business-type activities because of an overall increase in the size of the investment portfolio in spite of lower interest rates.



## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

### **Financial Analysis of the Authority's Funds**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The General Division Fund is the chief operating fund of the Authority. At the end of the current fiscal year, unreserved fund balance of the General Division Fund was \$1,993,887, while total fund balance reached \$2,109,050. As a measure of the General Division Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 321.37% of total General Division Fund expenditures, while total fund balance represents 339.93% of that same amount.

**Proprietary Funds.** The Authority's proprietary fund schedules provide the same type of information found in the basic financial statements, but in more detail.

Unrestricted net assets of the Utility Division at the end of the year amounted to \$506,460, and those for the Environmental Services Division amounted to \$192,838. The total growth in net assets for both funds was \$161,407 and \$4,547, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Authority's business-type activities.

### **Capital Asset and Debt Administration**

**Capital Assets.** The Authority's investment in capital assets for its business type activities and internal service funds as of September 30, 2004, amounts to \$8,706,962 (net of accumulated depreciation). This investment in capital assets includes land, water systems, and water rights. The total increase in the Authority's investment in capital assets for the current fiscal year was 0.95%.

Major capital asset events during the current fiscal year included the following:

- Tank re-coating at the Preston Shores water system in the amount of \$160,603,
- Line replacement on the Medicine Mound water system in the amount of \$90,052,
- Vehicle purchases in the amount of \$66,572,
- Replacement of the engine on the maintenance truck for the amount of \$12,188,
- Disposition of fully-depreciated vehicles with a total purchase price of \$111,397,
- Disposition of obsolete office furniture and fixtures with a purchase price of \$103,158, and
- Canon Color Copier purchased in the amount of \$16,896.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**, Continued

**CAPITAL ASSETS**  
(Net of Depreciation)

Asset	Value September 30, 2003	Additions	Deletions	Value September 30, 2004	Accumulated Depreciation	Net Value
Land and easements	\$ 210,940	0	0	\$ 210,940	0	\$ 210,940
Water storage rights	373,500	0	0	373,500	\$ (160,039)	213,461
Water storage systems	14,068,603	\$253,944	0	14,322,547	(6,336,038)	7,986,509
Machinery and equipment	488,716	7,354	0	496,070	(383,974)	112,096
Furniture and fixtures	465,119	27,257	\$(103,158)	389,218	(341,374)	47,844
Motor vehicles	429,158	78,759	(111,397)	396,520	(260,408)	136,112
Totals	\$ 16,036,036	\$ 367,314	\$(214,555)	\$ 16,188,795	\$(7,481,833)	\$ 8,706,962

Additional information on the Authority's capital assets can be found in Note 5 on pages 26-27 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$5,456,000. Of this amount, \$5,456,000 comprises debt backed by the full faith and credit of the Authority and is secured solely by specified revenue sources (i.e., revenue bonds).

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

### LONG-TERM DEBT

Bonds payable and transactions for the year then ended at September 30, 2004 are summarized as follows:

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2003	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2004
Water Revenue Bonds –							
Series 1966	4.0%	04-01-04	\$ 6,000 to 7,000	\$ 94,000	\$ 7,000	\$ (7,000)	\$ 0
Series 1969-A	4.5%	04-01-09	4,000 to 9,000	104,000	35,000	(4,000)	31,000
Series 1981-A	5.0%	04-01-20	1,000 to 5,000	65,000	42,000	(2,000)	40,000
Series 1991	6.9%	04-01-16	15,000 to 40,000	600,000	200,000	(15,000)	185,000
Series 97 Ref	7.9%	04-01-14	80,000 to 200,000	1,885,000	1,535,000	(95,000)	1,440,000
Series 1997	5.6%	04-01-17	165,000 to 400,000	4,850,000	3,950,000	(190,000)	3,760,000
Total Water Revenue Bonds				<u>\$7,598,000</u>	<u>\$ 5,769,000</u>	<u>\$ (313,000)</u>	<u>\$ 5,456,000</u>

The Authority's total debt decreased by \$313,000 (5.4%) during the current fiscal year. The decrease was due to the scheduled retirement in the bonds for the Authority's Utility Division.

The Authority received an "AAA" rating from Standard and Poors and Moody's for its last revenue bond issue in 1997. The 1997 issue was utilized to make capital improvements to two of the Utility Division's Surface Water Treatment Plants and to refund some high interest loans on behalf of the Utility Division. No new issues have been made by the Authority since 1997.

Additional information on the Authority's long-term debt can be found in **Note 6 on pages 28-30** of this report.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**, Continued

### **Economic Factors and Next Year's Budgets and Rates**

- Capital expenditures in the Utility Division system
- Increased use laboratory by public
- Increase in commercial and wholesale water rates
- Inflationary trends in the region compare favorably to national indices

All of these factors were considered in preparing the Authority's budget for the 2005 fiscal year.

During the current fiscal year, unrestricted net assets in the general fund increased to \$1,993,887. The Authority has projected an increase of \$148,384 in net assets for the 2005 fiscal year budget.

The Utility Division commercial rates were increased in the 2004 budget year by an average of 35.9%.

### **Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Red River Authority of Texas, 900 Eighth Street, Suite 520, Wichita Falls, Texas, 76301-6894.

## **APPENDIX N - 4**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
September 30, 2004

	Enterprise Funds			Memorandum Only Totals		Internal Service Funds
	Utility Division Fund	Environmental Services Division Fund	Other Enterprise Funds	2004	2003	
ASSETS						
Current assets:						
Cash and short-term investments (Note 2)	\$ 1,388,568	\$ 32,381	\$ 0	\$ 1,420,949	\$ 1,143,421	\$ 3,445,986
Investments (Note 2)	698,511	16,732	0	715,243	442,760	1,015,409
Receivables:						
Trade and contracts	488,733	117,214	29,506	635,453	706,573	96,290
Interest receivable	3,163	21	90	3,274	4,116	2,080
Due from other Authority funds	0	0	0	0	0	29,506
Interfund loans	0	0	0	0	0	133,985
Prepaid expenses	0	0	0	0	0	18,773
Inventory	0	0	0	0	0	36,908
Total current assets	<u>2,578,975</u>	<u>166,348</u>	<u>29,596</u>	<u>2,774,919</u>	<u>2,296,870</u>	<u>4,778,937</u>
Restricted assets:						
Cash and short-term investments (Note 2)	686,014	0	12,854	698,868	850,021	53,870
Investments (Note 2)	59,063	0	25,896	84,959	116,019	108,531
Total restricted assets	<u>745,077</u>	<u>0</u>	<u>38,750</u>	<u>783,827</u>	<u>966,040</u>	<u>162,401</u>
Fixed assets:						
Land and easements	123,298	0	0	123,298	123,298	87,642
Water storage rights	373,500	0	0	373,500	373,500	0
Water and sewer systems	14,322,547	0	0	14,322,547	14,068,603	0
Machinery and equipment	0	197,691	0	197,691	195,009	298,379
Furniture and fixtures	0	0	0	0	0	389,218
Motor vehicles	0	22,214	0	22,214	45,971	374,306
Less accumulated depreciation and amortization	<u>(6,496,077)</u>	<u>(170,791)</u>	<u>0</u>	<u>(6,666,868)</u>	<u>(6,307,364)</u>	<u>(814,965)</u>
Total fixed assets	<u>8,323,268</u>	<u>49,114</u>	<u>0</u>	<u>8,372,382</u>	<u>8,499,017</u>	<u>334,580</u>
Long-term assets:						
Investments (Note 2)	63,641	1,524	0	65,165	393,584	92,512
Interfund loans receivable, less current	0	0	0	0	0	502,581
Total long-term assets	<u>63,641</u>	<u>1,524</u>	<u>0</u>	<u>65,165</u>	<u>393,584</u>	<u>595,093</u>
Total assets	<u>\$ 11,710,961</u>	<u>\$ 216,986</u>	<u>\$ 68,346</u>	<u>\$ 11,996,293</u>	<u>\$ 12,155,511</u>	<u>\$ 5,871,011</u>

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS, Continued  
September 30, 2004

	Enterprise Funds			Memorandum Only Totals		Internal Service Funds
	Utility Division Fund	Environmental Services Division Fund	Other Enterprise Funds	2004	2003	
<b>LIABILITIES</b>						
<b>Current liabilities (payable from current assets):</b>						
Bank overdraft (Note 2)	\$ 2,106,602	\$ 0	\$ 0	\$ 2,106,602	\$ 2,275,497	\$ 47,285
Accounts payable - trade	69,053	2,114	90	71,257	113,662	54,678
Due to other Authority funds	0	0	29,506	29,506	22,706	0
Accrued payroll and related taxes	9,872	4,614	0	14,486	26,254	9,565
Deferred revenue	0	0	0	0	0	24,690
Interfund loans payable, current	52,371	6,554	0	58,925	69,366	75,060
Total	2,237,898	13,282	29,596	2,280,776	2,507,485	211,278
<b>Current liabilities (payable from restricted assets):</b>						
Bonds payable, current (Note 6)	321,001	0	0	321,001	313,001	0
Total	321,001	0	0	321,001	313,001	0
Total current liabilities	2,558,899	13,282	29,596	2,601,777	2,820,486	211,278
<b>Long-term liabilities:</b>						
Bonds payable, less current maturities (Note 6)	4,874,978	0	0	4,874,978	5,171,827	0
Interfund loans payable, less current maturities	365,574	10,866	0	376,440	188,489	126,142
Deposits	178,620	0	0	178,620	176,185	0
Total long-term liabilities	5,419,172	10,866	0	5,430,038	5,336,501	126,142
Total liabilities	7,978,071	24,148	29,596	8,031,815	8,356,987	337,420
<b>Net Assets:</b>						
Investment in capital assets, net of related debt	2,709,350	0	0	2,709,350	2,751,044	133,378
Restricted:						
Debt service, repair & replacement and construction	517,080	0	0	517,080	527,238	0
Unrestricted	506,460	192,838	38,750	738,048	520,242	5,400,213
Total restricted and unrestricted	1,023,540	192,838	38,750	1,255,128	1,047,480	5,400,213
Total net assets	3,732,890	192,838	38,750	3,964,478	3,798,524	5,533,591
Total liabilities and net assets	\$ 11,710,961	\$ 216,986	\$ 68,346	\$ 11,996,293	\$ 12,155,511	\$ 5,871,011

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS**  
for the year ended September 30, 2004

	Enterprise Funds			Memorandum Only Totals			Internal Service Funds
	Utility Division Fund	Environmental Services Division Fund	Other Enterprise Funds				
				2004	2003		
<b>Operating revenues:</b>							
Water and sewer sales	\$ 3,055,143	\$ 0	\$ 0	\$ 3,055,143	\$ 3,065,496	\$ 0	\$ 403,521
Charges for materials and services	0	311,452	37,025	348,477	396,137	0	0
Issuance fees	0	0	0	0	0	0	589,816
Administrative fee income	0	0	0	0	0	0	0
Other	72,917	57,105	0	130,022	113,275	0	0
	<u>3,128,060</u>	<u>368,557</u>	<u>37,025</u>	<u>3,533,642</u>	<u>3,574,908</u>		<u>993,337</u>
<b>Operating expenses:</b>							
Water purchases	457,365	0	0	457,365	406,063	0	0
Personnel services	621,622	221,756	0	843,378	845,871	338,153	338,153
Administrative costs	536,117	53,511	923	590,551	557,626	132,525	132,525
Utilities, supplies and maintenance	558,926	52,979	0	611,905	580,302	53,247	53,247
Insurance	0	0	0	0	0	0	48,558
Automobile and travel	109,403	9,613	0	119,016	119,804	98,635	98,635
Professional and directors fees	0	861	0	861	1,420	135,985	135,985
Research expense	0	15,765	0	15,765	13,787	0	0
Bad debts	16,031	0	0	16,031	17,348	0	0
	<u>2,299,464</u>	<u>354,485</u>	<u>923</u>	<u>2,654,872</u>	<u>2,542,221</u>		<u>807,103</u>
Operating income (loss) before depreciation and amortization	828,596	14,072	36,102	878,770	1,032,687	186,234	186,234
Depreciation and amortization	(370,179)	(13,076)	0	(383,255)	(402,163)	(90,336)	(90,336)
Operating income (loss)	<u>458,417</u>	<u>996</u>	<u>36,102</u>	<u>495,515</u>	<u>630,524</u>		<u>95,698</u>
<b>Non-operating revenues (expenses):</b>							
Interest income	53,538	656	923	55,117	52,352	98,735	98,735
Gain on disposal of assets	0	4,879	0	4,879	0	8,730	8,730
Interest expense	(385,697)	(1,984)	0	(387,681)	(396,464)	(17,849)	(17,849)
	<u>(332,159)</u>	<u>3,551</u>	<u>923</u>	<u>(327,685)</u>	<u>(344,112)</u>		<u>89,616</u>
Income (loss) before operating transfers and other credits	126,258	4,547	37,025	167,830	286,412	185,314	185,314
Capital contributions	35,149	0	0	35,149	0	37,025	37,025
Operating transfers in	0	0	0	0	0	0	0
Operating transfers out	0	0	(37,025)	(37,025)	(37,025)	0	0
Add credits from transfers of depreciation to contributed capital accounts	0	0	0	0	68,018	0	0
Change in net assets	<u>161,407</u>	<u>4,547</u>	<u>0</u>	<u>165,954</u>	<u>317,405</u>		<u>222,339</u>
Net assets, beginning	<u>3,571,483</u>	<u>188,291</u>	<u>38,750</u>	<u>3,798,524</u>	<u>3,481,119</u>		<u>5,311,252</u>
Net assets, ending	<u>\$ 3,732,890</u>	<u>\$ 192,838</u>	<u>\$ 38,750</u>	<u>\$ 3,964,478</u>	<u>\$ 3,798,524</u>		<u>\$ 5,533,591</u>



**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
for the year ended September 30, 2004

	Enterprise Funds			Memorandum Only Totals		Internal Service Funds
	Utility Division Fund	Environmental Services Division Fund	Other Enterprise Funds	2004	2003	
<b>Increase (decrease) in cash and cash equivalents:</b>						
<b>Cash flows from operating activities:</b>						
Cash received from customers and users	\$ 3,146,047	\$ 412,459	\$ 30,225	\$ 3,588,731	\$ 3,452,240	\$ 188,667
Cash received from internal services provided	0	0	0	0	0	834,488
Cash payments to suppliers for goods and services	(950,563)	(84,212)	0	(1,034,775)	(878,536)	(438,781)
Cash payments to employees for services	(635,172)	(219,974)	0	(855,146)	(846,968)	(336,278)
Cash payments for internal services used	(753,911)	(48,187)	(996)	(803,094)	(758,844)	(35,019)
Customer deposits received	2,435	0	0	2,435	1,423	0
Net cash provided (used) by operating activities	808,836	60,086	29,229	898,151	969,315	213,077
<b>Cash flows from noncapital financing activities:</b>						
Operating transfers to other funds	0	0	(30,225)	(30,225)	(37,025)	0
Operating transfers from other funds	0	0	0	0	0	30,225
Proceeds from interfund loans	0	0	0	0	0	21,151
Principal paid on interfund loans	0	0	0	0	0	(39,810)
Interest paid on interfund loans	0	0	0	0	0	(927)
Net cash provided (used) by noncapital financing activities	0	0	(30,225)	(30,225)	(37,025)	10,639
<b>Cash flows from capital and related financing activities:</b>						
Principal paid on revenue bonds and notes	(313,000)	0	0	(313,000)	(287,000)	95,656
Interest paid on revenue bonds and notes	(343,751)	0	0	(343,751)	(361,144)	0
Proceeds from interfund loans	250,656	(36,798)	0	213,858	161,502	0
Principal paid on interfund loans	(36,348)	(1,984)	0	(38,332)	(61,843)	(67,227)
Interest paid on interfund loans	(17,795)	(2,682)	0	(20,477)	(11,164)	(16,922)
Acquisition of capital assets	(253,938)	4,879	0	(249,059)	(180,004)	(110,688)
Proceeds from sale of equipment	0	0	0	0	0	8,730
Capital contribution	35,149	0	0	35,149	0	0
Net cash used by capital and related financing activities	(679,027)	(36,585)	0	(715,612)	(739,653)	(90,451)
<b>Cash flows from investing activities:</b>						
Interfund loan advances	0	0	0	0	0	(367,461)
Collections received on interfund loans	0	0	0	0	0	180,182
Interest received on interfund loans	0	0	0	0	0	37,946
Proceeds from sales of investments	1,039,098	77,738	116,553	1,233,389	526,796	2,894,130
Purchase of investments	(954,696)	(84,611)	(107,086)	(1,146,393)	(809,966)	(2,659,050)
Interest received on investments	54,313	651	996	55,960	52,081	65,433
Net cash provided (used) by investing activities	138,715	(6,222)	10,463	142,956	(231,089)	151,180
<b>Net increase (decrease) in cash and cash equivalents</b>	268,524	17,279	9,467	295,270	(38,452)	284,445
<b>Cash and cash equivalents (deficit), beginning (Note 2)</b>	(300,544)	15,102	3,387	(282,055)	(243,603)	3,168,126
<b>Cash and cash equivalents (deficit), ending (Note 2)</b>	\$ (32,020)	\$ 32,381	\$ 12,854	\$ 13,215	\$ (282,055)	\$ 3,452,571

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS, Continued**  
for the year ended September 30, 2004

	Enterprise Funds			Memorandum Only Totals -		
	Utility	Environmental	Other	2004	2003	Internal
	Division	Services	Enterprise			Service
	Fund	Division Fund	Funds			Funds
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 458,417	\$ 996	\$ 36,102	\$ 495,515	\$ 630,524	\$ 95,698
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>						
Depreciation and amortization	370,179	13,076	0	383,255	402,163	90,536
Abandonment	0	0	0	0	0	365
Change in assets and liabilities:						
Increase (decrease) in trade receivables	34,018	43,902	(6,800)	71,120	(103,001)	24,242
Increase (decrease) in prepaid expenses	0	0	(73)	(73)	0	17,436
Increase (decrease) in inventory	0	0	0	0	0	(1,873)
Increase (decrease) in trade accounts payable	(42,663)	330	0	(42,333)	39,872	(20,777)
Increase (decrease) in accrued liabilities	(13,550)	1,782	0	(11,768)	(1,666)	1,874
Increase (decrease) in deferred revenues	0	0	0	0	0	5,576
Increase (decrease) in deposits	2,435	0	0	2,435	1,423	0
Total adjustments	350,419	59,090	(6,873)	402,636	338,791	117,379
Net cash provided (used) by operating activities	\$ 808,836	\$ 60,086	\$ 29,229	\$ 898,151	\$ 969,315	\$ 213,077

## **APPENDIX N - 5**

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of the Red River Authority of Texas' more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

A. Implementation of New Standards – GASB (Governmental Accounting Standards Board) Statements 34, 37, and 38

In the current year, the Authority implemented the following standards issued by GASB:

1. Statement Number 34, Basic Financial Statements and Management's Discussion and Analysis for state and local governments,
2. Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis for state and local governments,
3. Statement Number 38, Certain Financial Statement Disclosures.

The implementation of these standards had the following impact in the accompanying financial statements:

1. Presentation of Management's Discussion and Analysis (MD&A),
2. Classification of net assets,
3. Reporting certain additional footnote disclosures.

4. Reporting Model

GASB Statement Number 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

1. Management's Discussion and Analysis – GASB Statement Number 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of a "management's discussion and analysis". This analysis is similar to the analysis the private sector provides in their annual reports.

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

2. Statement of Net Assets – The Statement of Net Assets is designed to display the financial position of the primary government (business-type activities). The net assets of a government will be broken down into three categories: invested in capital assets, net of related debt; restricted; and unrestricted.

C. Reporting Entity

The Red River Authority of Texas was created in 1959 by Acts of the 56<sup>th</sup> Texas Legislature as a political subdivision of the State, a body politic and corporate under Article XVI, Section 59 of the Texas Constitution. The Authority's Enabling Legislation, Article 8280-228 of Vernon's Annotated Texas Civil Statutes (VATCS), enumerates the primary powers granted under the General and Special Laws of the State to fulfill its purpose as a water conservation and reclamation district. Additionally, the Authority functions under the applicable provisions of the Texas Water Code, Chapter 49. The Authority is governed by a Board of Directors who are appointed by the Governor of the State of Texas to serve a six-year staggered term.

The Authority is charged by state legislative mandate with three functions which include maintenance of a Master Plan for basinwide development, serving as local sponsor for federal water projects, and providing services authorized by the Texas Legislature within the defined territory of the Authority which encompasses all or part of forty-three Texas counties. The Authority also serves as a conduit for tax-exempt financing for municipal water and wastewater facilities and industrial pollution control facilities.

The Red River Industrial Development Authority was authorized by the Board of Directors in July 1979, under terms of the Texas Development Corporation Act of 1979. The Red River Industrial Development Authority is a separate entity from the Red River Authority of Texas. It is authorized to act on behalf of the Authority for the specific purpose of promotion and development of commercial, industrial, and manufacturing enterprises to encourage employment and public welfare within the geographical confines of the Red River Basin in Texas.

The Red River Industrial Development Authority was evaluated by management for inclusion in the reporting entity's general purpose financial statements using the following criteria:

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

1. Exercise of oversight responsibility over this agency by the Authority's appointed officials:
  - a. financial interdependency;
  - b. selection of governing authority;
  - c. designation of management;
  - d. ability to significantly influence operations and accountability for fiscal matters.
2. Scope of public service:
  - a. whether the activity is for the benefit of the reporting entity and/or its residents;
  - b. whether the activity is conducted within the geographic boundaries of the reporting entity and is generally available to the citizens of that entity.

Although the Industrial Development Authority did not meet the most significant criteria, that of financial interdependency (the bonds issued do not constitute indebtedness of the Red River Authority of Texas and are secured solely by revenues received from the commercial organizations on whose behalf the bonds are issued); the governing Board is the same as that for the Red River Authority of Texas and has control over the net assets of the Industrial Development Authority. All other criteria were met and the Industrial Development Authority's financial statements have been included with these financial statements as part of the Red River Authority of Texas' direct financing arrangements.

D. Basis of Presentation

The Authority's accounting system consists solely of nine proprietary funds which are further divided into two major enterprise funds, two minor enterprise funds, and five internal service funds.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues, such as charges for services, result from exchange transactions in which each party receives and gives up essentially equal values. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues or expenses. These include operating subsidies, investment earnings, interest expense, and transactions that result from non-exchange transactions or ancillary services.

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and/or services to the general public on a continuing basis be recovered primarily through user charges.

The internal service funds operate as cost centers and account for the financing of goods and services provided by one department primarily to other departments or funds on a cost reimbursed basis.

Amounts in the "memorandum only totals" columns represent a summation of the combined financial statement line items and are presented only for analytical purposes. Interfund transactions have not been eliminated and the amounts shown in the "memorandum only totals" columns are not comparable to a consolidation and do not fairly present financial position or results of operations for the Authority as a whole.

The financial information shown for 2003 in the accompanying financial statements is included to provide a basis for comparison with 2004 and presents summarized totals only.

E. Basis of Accounting

All business-type activities of the authority follow GASB statements and interpretations issued on or before November 30, 1989, accounting principle Board Opinions, and Accounting Research Bulletins unless those pronouncements conflict with GASB pronouncements.

The accompanying financial statements have been prepared on the full accrual basis of accounting as prescribed by the Governmental Accounting Standards Board in accordance with the National Council on Governmental Accounting's Statement One. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Unbilled services receivable are recognized as revenue at year end.

Generally, revenue bond debt service is predominantly applicable to interest in the early years, with the portion thereof applicable to principal retirements increasing in later years. Since depreciation of the related facilities is generally provided on the straight-line method (see Fixed Assets and Depreciation), depreciation expense usually exceeds the portion of revenues received which is applicable to bond principal retirements in the early years. This results in reporting losses in enterprise funds in early years which will reverse in later years.

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The Authority occasionally receives grants from the federal government and other sources in connection with the construction of facilities of enterprise funds. These grants are recorded as contributed capital when they are earned and measurable. Depreciation is provided on the total cost of the facilities. The portion of depreciation related to contributed fixed assets is charged against contributed capital, thus amortizing contributed capital over periods equal to the lives of the contributed fixed assets on a straight-line basis.

F. Budgetary Accounting

The Authority maintains control over operating expenses by the establishment of an annual operating budget. The Authority is not required under its enabling act to adopt a budget; therefore, statements of expenses compared to budget are not included within the general purpose financial statements.

G. Cash and Short-Term Investments

For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) which are readily convertible to cash to be cash equivalents. Investments are stated at cost, which approximates market, and comprise short-term investments backed by agencies of the State of Texas or the United States Government.

H. Accounts Receivable

The Authority considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operating expenses when that determination is made.

I. Inventory

Inventory of the Maintenance Division consists of supplies and various materials used for the maintenance of fixed assets. The "consumption" method is used to account for this inventory. Under this method, inventory acquisitions are recorded in inventory accounts initially and charged to expense when used. Inventories are stated at the lower of cost or market, using the first-in, first-out method.

J. Fixed Assets and Depreciation

Property, plant, and equipment are recorded at their historical cost except for contributed assets which are recorded at their fair market value at the time donated. Interest is capitalized on construction projects until substantially completed.



**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life greater than one year.

Depreciation of purchased fixed assets is charged as an expense against operations. Depreciation of contributed fixed assets is charged against contributed capital accounts. Depreciation is recorded on the straight-line basis over the estimated useful life of the fixed assets. The estimated useful lives are as follows:

Water and sewer systems	5-50 years
Machinery and equipment	4-20 years
Motor vehicles	4 years

Water rights, purchased from the Department of the Army Corps of Engineers, are amortized on a straight-line basis over the 50-year life of the contract between the Authority and the Corps of Engineers.

K. Direct Financing Arrangements

The Authority occasionally acts as an agent or intermediary for obtaining tax-exempt financing of water, sewage, or pollution control facilities for third parties. The Authority does not operate or maintain these facilities. The Authority receives issuance fees at the time of issuance and management fees on an annual basis for their assistance in handling the arrangements, which are reported as revenue. Arrangements of this type are accounted for in an enterprise fund as direct financing arrangements. The bonds are payable solely from and secured by a pledge of the revenues derived from the installment sale of the projects to the various entities that operate and maintain the facilities. The bonds are regarded as debts and responsibilities of the third parties on whose behalf they were issued, and the bonded debt, offsetting contract receivable, interest expense, and offsetting contract revenue are not included in the Authority's financial statements. Additional information concerning these conduit bonds is disclosed in Note 7.

L. Vacation and Sick Leave

The Authority does not recognize an accrual for non vesting sick leave pursuant to GASB Statement 16, since the obligation for payment is contingent on an employee's future service.

An employee earns eight hours of vacation leave on the last day of each month and is entitled to use 96 hours (12 days) of vacation leave each calendar year. Any unused vacation leave up to a maximum of 96 hours is accrued as a liability of the Authority since payment will be made upon termination of the employee.

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Restricted Assets

Contractually restricted cash, investments, and receivables are reported in a separate assets section of the balance sheet. Such amounts are physically segregated from other assets pursuant to certain restrictions of bond indentures and Board requirements.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and the unrestricted resources as they are needed.

N. Reserves

In those enterprise funds for which the Authority operates the project, reserves are provided for debt service reserve funds that are required by the bond resolutions. Reserves are not provided to those enterprise funds in which the Authority's investment is accounted for as a direct financing arrangement.

Reserves are provided by a charge to retained earnings to the extent such debt service reserve fund balances were accumulated from revenues.

O. Interfund Transactions

The financial statements reflect three types of interfund transactions. Operating transfers between the enterprise funds and internal service funds are legally authorized transfers of a permanent nature. Amounts due to and from Authority funds are temporary receivables and payables resulting from normal operations. Interfund loans payable and receivable are used to record interfund loans which are of a longer duration and are classified as short and long-term payables and receivables.

The various divisions of the Authority pay administrative charges to the General Division based on a percentage of total non-reimbursed expenses in each division. The Authority also allocates automobile expenses and communication equipment expenses to the other divisions based on usage. Maintenance and repair expenses are accumulated in the Maintenance Division and are directly charged to the Water and Sewer Systems for which the work was performed.

An Interfund Loan Division was established by Board resolution to lend funds to financially assist the other Authority divisions as the need arose.

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

A. Cash and Short-Term Investments

At September 30, 2004, the Authority's cash and short-term investments per the combined balance sheet are as follows:

		Proprietary Fund Types			
	Average Interest Rate	Enterprise	Internal Service	Current Year 2004	Prior Year 2003
Current assets:					
Cash in bank	0.26%	\$ 643,569	\$ 1,560,737	\$2,204,306	\$2,441,514
Cash in TexPool	1.98%	777,380	1,885,249	2,662,629	1,890,323
A.G. Edwards M Mkt	0.00%	0	0	0	4,916
		1,420,949	3,445,986	4,866,935	4,336,753
Restricted assets:					
Cash in bank	0.26%	665	0	665	663
Cash in TexPool	1.98%	698,203	53,870	752,073	863,478
A.G. Edwards M Mkt	0.00%	0	0	0	73
		698,868	53,870	752,738	864,214
Current liabilities:					
Bank overdraft		(2,106,602)	(47,285)	(2,153,887)	(2,314,896)
		\$ 13,215	\$ 3,452,571	\$3,465,786	\$2,886,071

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS September 30, 2004

### 2. DEPOSITS AND INVESTMENTS, Continued

Cash and short-term investments are held in the selected financial institution, the Texas Local Government Investment Pool (TexPool) and are carried at fair value. The fair value of cash and short-term investments was \$3,465,786 at September 30, 2004. All bank deposits at September 30, 2004 were fully insured and/or collateralized by collateral held by the pledging bank's trust department in the Authority's name.

A publicly available financial report from TexPool that includes financial statements and required supplementary financial information can be obtained from TexPool participant services at Lehman Brothers, 600 Travis Street, Suite 7200, Houston, Texas 77002.

#### B. Investments

All securities held at September 30, 2004 were held by the Authority's agents in the Authority's name.

The Authority's investments as of September 30, 2004 are as follows:

	Proprietary Fund Types		Current	Prior Year
	Enterprise	Internal Service	Year 2004	2003
Current Assets:				
Certificates of Deposit	\$ 157,757	\$ 223,963	\$ 381,720	\$1,132,740
U.S. Agency				
Collateralized				
Mortgage Obligations	557,486	791,446	1,348,932	0
	715,243	1,015,409	1,730,652	1,132,740
Restricted Assets:				
Certificates of Deposit	18,739	23,938	42,677	264,228
U.S. Agency				
Collateralized				
Mortgage Obligations	66,220	84,593	150,813	0
	84,959	108,531	193,490	264,228
Long-Term Assets:				
Certificates of Deposit	14,373	20,405	34,778	1,006,927
U.S. Agency				
Collateralized				
Mortgage Obligations	50,792	72,107	122,899	0
	65,165	92,512	157,677	1,006,927
	<u>\$ 865,367</u>	<u>\$1,216,452</u>	<u>\$2,081,819</u>	<u>\$2,403,895</u>

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

2. DEPOSITS AND INVESTMENTS, Continued

The fair value of these investments was \$2,080,579 at September 30, 2004.

The Authority invests idle operating cash, debt retirement funds, and bond proceeds in accordance with the Public Funds Investment Act, Chapter 2256 of the Local Government Code, as amended. The Authority did not participate in any investment activities other than investments backed by agencies of the State of Texas or the United States Government.

3. OPERATING TRANSFERS

Operating transfers during the year ended September 30, 2004 are:

	Operating Transfers Out	Operating Transfers In
General Division	\$ 0	\$ 37,025
Direct Financing Arrangements	37,025	0
	<u>\$ 37,025</u>	<u>\$ 37,025</u>

Management fee income of \$37,025 generated by the Direct Financing Arrangements was transferred to the General Division.

4. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual fund due from and due to balances at September 30, 2004 are:

	Due From	Due To
General Division	\$ 29,506	\$ 0
Direct Financing Arrangements	0	29,506
	<u>\$ 29,506</u>	<u>\$ 29,506</u>

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS September 30, 2004

### 4. INTERFUND RECEIVABLE AND PAYABLE BALANCES, Continued

Interfund notes payable to the Interfund Loan Division at September 30, 2004 are:

			2004 Payments				
Fund	IFL Loan Number	Monthly Payment	Principal	Interest at 8%	Maturity Date	Payable September 30, 2004	
General Division	GD0011-01	\$ 3,183	\$18,659	\$ 418	03-31-04	\$ 0	
	GD0011-002	3,607	21,151	490	09-30-04	0	
	GD011-005	233	1,142	21	02-29-04	0	
	GD011-006	640	1,268	9	11-30-03	0	
	GD011-007	499	4,158	1,330	10-31-07	16,311	
	GD011-008	342	1,204	504	4-30-09	15,692	
Environmental Services	ESD0079-01	523	519	0	10-31-03	0	
	ESD0079-02	643	6,052	1,656	02-28-07	17,420	
	ESD0079-04	25,006	25,006	272	10-31-03	0	
	ESD0079-05	5,220	5,220	57	10-31-03	0	
Maintenance Division	MD0080-01	670	4,498	3,542	06-30-11	41,841	
	MD0080-02	176	1,601	508	08-31-07	5,469	
	MD080-003	297	669	891	06-30-08	11,518	
Motor Pool	MP0082-01	2,128	22,435	3,085	10-31-05	26,410	
	MP0082-03	1,125	9,333	3,038	10-31-07	36,770	
	MP0082-04	2,134	20,919	4,682	08-31-06	47,191	
Utility Division							
Systems:	113	NFD-1113-02	339	3,372	700	07-31-06	6,925
	113	NFD-1113-03	347	3,117	1,042	10-31-07	11,334
	211	NG-1211	65	128	1	11-30-03	0
	213	QSW-1213	66	131	1	11-30-03	0
	221	OG-1221	44	88	1	11-30-03	0
	230	MM-1230	167	494	6	12-31-03	0

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

4. INTERFUND RECEIVABLE AND PAYABLE BALANCES, Continued

Interfund notes payable to the Interfund Loan Division at September 30, 2004 are:

Fund	IFL Loan Number	Monthly Payment	2004 Payments		Maturity Date	Payable September 30, 2004	
			Principal	Interest at 8%			
Utility Division							
Systems:	230	MM-1231	\$ 1,273	\$ 1,188	\$2,546	07-31-12	\$ 88,694
	231	QNE-1231	0	154	1	11-30-03	0
	300	LO-1300	184	365	2	11-30-03	0
	311	BO-1311	55	109	1	11-30-03	0
	312	HI-1312-01	69	137	1	11-30-03	0
	312	HI-1312-02	620	4,078	3,361	09-30-11	39,772
	313	FV-1313	131	515	8	01-31-04	0
	410	TCV-1410-01	268	2,979	234	02-28-05	1,313
	410	TCV-1400-02	282	2,216	1,161	06-30-09	13,314
	500	GDU-1500	386	765	5	11-30-03	0
	510	FO-1510	224	445	3	11-30-03	0
	520	TG-1520	270	534	4	11-30-03	0
	722	PS-1722	2,270	2,422	2,119	7-31-12	158,181
	800	HWK-1800-02	885	6,877	3,744	08-31-09	43,070
	902	RI-1902-01	99	391	6	01-31-04	0
	902	RI-1902-02	863	5,674	4,676	09-30-11	55,342
Total payable to Interfund Loan Division September 30, 2004:							\$ 636,567

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

5. **FIXED ASSETS**

A summary of property, plant and equipment for the year ended September 30, 2004 follows:

	Enterprise Funds		
	Utility Division	Environ- mental Services	Total
Land and easements	\$ 123,298	\$ 0	\$ 123,298
Water storage rights	373,500	0	373,500
Water and sewer systems	14,322,547	0	14,322,547
Machinery and equipment	0	197,691	197,691
Motor vehicles	0	22,214	22,214
	<u>14,819,345</u>	<u>219,905</u>	<u>15,039,250</u>
Less accumulated depreciation and amortization	<u>(6,496,077)</u>	<u>(170,791)</u>	<u>(6,666,868)</u>
Total	<u>\$ 8,323,268</u>	<u>\$ 49,114</u>	<u>\$ 8,372,382</u>

	Enterprise Funds			
	Balance September 30, 2003	Additions	Deletions	Balance September 30, 2004
Land and easements	\$ 123,298	\$ 0	\$ 0	\$ 123,298
Water storage rights	373,500	0	0	373,500
Water and sewer systems	14,068,603	253,944	0	14,322,547
Machinery and equipment	195,009	2,682	0	197,691
Motor vehicles	45,971	0	23,757	22,214
Total	<u>\$ 14,806,381</u>	<u>\$ 256,626</u>	<u>\$ 23,757</u>	<u>\$ 15,039,250</u>



# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS September 30, 2004

### 5. FIXED ASSETS, Continued

A summary of property, plant and equipment for the year ended September 30, 2004 continues as follows:

	Internal Service Funds				Total
	General Division	Maintenance Division	Communications Division	Motor Vehicle Pool	
Land easements	\$ 83,331	\$ 4,311	\$ 0	\$ 0	\$ 87,642
Machinery and equipment	0	82,153	216,226	0	298,379
Furniture and fixtures	389,218	0	0	0	389,218
Motor vehicles	46,861	65,723	0	261,722	374,306
	519,410	152,187	216,226	261,722	1,149,545
Less accumulated depreciation	(372,244)	(82,824)	(204,388)	(155,509)	(814,965)
Total	\$ 147,166	\$ 69,363	\$ 11,838	\$ 106,213	\$ 334,580

	Internal Service Funds			
	Balance September 30, 2003	Additions	Deletions	Balance September 30, 2004
Land and easements	\$ 87,642	\$ 0	\$ 0	\$ 87,642
Machinery and equipment	293,707	4,672	0	298,379
Furniture and fixtures	465,119	27,257	103,158	389,218
Motor vehicles	383,187	78,759	87,640	374,306
Total	\$ 1,229,655	\$ 110,688	\$ 190,798	\$ 1,149,545

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

6. LONG-TERM DEBT

Bonds payable and transactions for the year then ended at September 30, 2004 are summarized as follows:

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2003	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2004
Water Revenue Bonds –							
Series 1966	4.00%	04-01-04	\$ 6,000 to 7,000	\$ 94,000	\$ 7,000	\$ (7,000)	\$ 0
Series 1969-A	4.50%	04-01-09	4,000 to 9,000	104,000	35,000	(4,000)	31,000
Series 1981-A	5.00%	04-01-20	1,000 to 5,000	65,000	42,000	(2,000)	40,000
Series 1991	6.90%	04-01-16	15,000 to 40,000	600,000	200,000	(15,000)	185,000
Series 97 Ref	7.90%	04-01-14	80,000 to 200,000	1,885,000	1,535,000	(95,000)	1,440,000
Series 1997	5.60%	04-01-17	165,000 to 400,000	4,850,000	3,950,000	(190,000)	3,760,000
Total Water Revenue Bonds				\$ 7,598,000	\$ 5,769,000	\$ (313,000)	\$ 5,456,000

On April 1, 1997, the Authority issued \$4,850,000 of Water System Revenue Bonds, Series 1997, with \$5,000 par value and interest rates varying between 4.2% and 5.7%. These bonds mature from April 1, 1998 through April 1, 2017 and are callable on and after April 1, 2007 in whole or in part in principal amounts of \$5,000 or any multiple thereof. The proceeds of the bonds were used to construct two water treatment plants, a wastewater treatment plant addition, and associated storage and piping.

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

6. LONG-TERM DEBT, Continued

The deferred amount on refunding and the deferred issuance costs associated with the refunding of \$1,640,000 of Water Revenue Refunding Bonds and the new issuance of \$4,850,000 of Water System Revenue Bonds are being amortized over the life of the new issues using the straight-line method and are reported as a deduction from bonds payable on the face of the financial statements. Deferred costs and amortization for the year ended September 30, 2004 are as follows:

	<u>Amount</u>	<u>Amortization</u>	<u>Net</u>
Series 1997 Refunding Bonds			
Deferred amount on refunding	\$ (135,595)	\$ 59,822	\$ (75,773)
Deferred issuance costs	(101,715)	44,875	(56,840)
Series 1997 Bonds			
Deferred issuance costs	<u>(203,854)</u>	<u>76,446</u>	<u>(127,408)</u>
Total	<u><u>\$ (441,164)</u></u>	<u><u>\$ 181,143</u></u>	<u>(260,021)</u>
Bonds payable			<u>5,456,000</u>
Bonds payable, net			<u><u>\$ 5,195,979</u></u>

The annual requirements to pay principal and interest on the obligations outstanding as of September 30, 2004, are as follows:

<u>Year Ending September 30</u>	<u>Water and Sewer Bonds</u>
2005	\$ 655,617
2006	657,502
2007	656,808
2008	657,780
2009 – 2013	3,278,280
2014 – 2018	1,976,249
2019 – 2020	<u>8,650</u>
	<u><u>\$ 7,890,886</u></u>

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

6. LONG-TERM DEBT, Continued

The net revenue of the Authority is pledged as collateral for the revenue bonds outstanding. \$163,518 is available in the interest and sinking fund at September 30, 2004 to service the bonds.

Bond reserve provisions as specified in the various bond ordinances require bond reserve deposits of \$493,180 and repair and replacement funds of \$23,900 at September 30, 2004. The Authority is in compliance with all significant provisions contained in the bond ordinances.

7. DIRECT FINANCING ARRANGEMENT DEBT

The bonds issued under direct financing arrangements represent, in substance, obligations of those entities on whose behalf they were issued and are not reflected on the Authority's financial statements. The following is a summary of changes in the direct financing arrangement obligations for the year ended September 30, 2004.

	Debt Outstanding October 1, 2003	New Obligations Issued	Obligations Retired or Refunded	Debt Outstanding September 30, 2004
Bonds issued under direct financing arrangements	\$ 178,975,000	\$ 0	\$ 0	\$ 178,975,000

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

7. DIRECT FINANCING ARRANGEMENT DEBT, Continued

Direct financing bonds payable at September 30, 2004, comprise the following individual issuances:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2004
<u>Pollution Control Revenue Bonds –</u>					
Southwestern Public Service Company –					
Adjustable Rate Tender Securities					
Series 1991	Variable	07-01-11	\$44,500,000*	\$ 44,500,000	\$ 44,500,000
Celanese Corporation –					
Series 1994	5.2%	05-01-07	9,950,000*	9,950,000	9,950,000
West Texas Utilities Company –					
Series 1996	6.0%	06-01-20	63,300,000*	63,300,000	63,300,000
Southwestern Public Service Company –					
Adjustable Rate Tender Securities					
Series 1996	Variable	07-01-16	25,000,000*	25,000,000	25,000,000
Excel Corporation –					
Series 2002	6.1%	02-01-22	3,775,000*	3,775,000	3,775,000
Celanese Corporation –					
Series 2002A	6.45%	11-01-30	4,990,000*	4,990,000	4,990,000
Celanese Corporation –					
Series 2002B	6.7%	11-01-30	27,460,000*	<u>27,460,000</u>	<u>27,460,000</u>
Total Direct Financing Bonds				<u>\$178,975,000</u>	<u>\$178,975,000</u>

\* Term payment at maturity

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

8. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Authority is subject to certain contingent liabilities and unasserted claims. These contingencies are evaluated in light of their probability of being asserted and the estimability of the claims. Those claims that are probable and estimable have been accrued in the accompanying financial statements. Claims that are possible and/or not estimable are disclosed herein. Remote claims are monitored until such time as they are resolved, disclosed, or accrued.

Six of the Authority's water systems have been issued Noncompliance Notices by the Texas Commission on Environmental Quality for being in violation of the United States Environmental Protection Agency's (EPA) Safe Drinking Water Act (SDWA) regulations, for exceeding the maximum contaminate level for nitrates levels. High nitrate levels are a common problem with water systems utilizing ground water not only in Texas, but across the nation. However, the Authority is satisfying all noncompliance requirements of notifying the customers by letter on a quarterly basis, furnishing affected customers with bottled water reimbursement, and keeping the TCEQ informed of its efforts in attempting to develop a cost effective solution to the high nitrate problem. Current estimates to resolve the nitrate problems range from \$350,000 to \$600,000 per system.

In 2004, the Authority was notified that two water systems were in violation of the SDWA's maximum contaminant level for total trihalomethanes (TTHMs). This was brought about by the EPA lowering the maximum contaminate level effective January 1, 2004.

The Authority's consultant engineers have been working on developing a treatment plan to reduce the TTHMs since April 2004 and submitted its plan to the TCEQ for approval on September 27, 2004. The Authority is currently awaiting approval and once received will advertise for bids. The new treatment equipment could be operational by April or May 2005 at an estimated cost of \$90,000 per system. The ultimate final costs for these improvements are not yet determinable.

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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9. OPERATING LEASE

The Authority leases office and parking space under an operating lease expiring in February 2005.

Minimum future rental payments under this operating lease having a remaining term less than one year as of September 30, 2004 based on the current rates are:

Year Ended September 30	Amount
2005	21,486
	<u>\$ 21,486</u>

On February 1 of each year the lease is subject to increase or decrease based on percent of change in the consumer price index (U.S. City Average). After January 31, 2003, lessee may terminate lease with a six-month notice to the lessor.

10. EMPLOYEE RETIREMENT PLAN

**Plan Description.** Red River Authority of Texas provides retirement, disability, and death benefits for all full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 535 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the Authority, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years of service, but must leave their accumulated contributions in the plan to receive any Authority-financed benefits. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the Authority.

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

10. EMPLOYEE RETIREMENT PLAN, Continued

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and Authority-financed monetary credits. The level of these monetary credits is adopted by the governing body of the Authority within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the Authority's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the Authority-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Funding Policy.** The Authority has chosen a fixed rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the Authority based on the covered payroll of employee members. Under the TCDRS Act, the regular 7.0% contribution rate of the Authority is a fixed percent equal to the 7.0% contribution rate payable by the employee members as adopted by the governing body of the Authority. This regular contribution rate of the Authority is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the Authority at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the Authority to contribute the same amount as the employees. The employee contribution rate and the Authority contribution rate may be changed by the governing body of the Authority within the options available in the TCDRS Act.

If a plan has had adverse experience, the TCDRS Act has provisions which allow the Authority to contribute a fixed supplemental contribution rate determined by the System's actuary above the regular rate for 25 years or to reduce benefits earned in the future. No supplemental contribution is required at this time.

**Annual Pension Cost.** For the Authority's accounting year ending September 30, 2004, the annual pension cost for the TCDRS plan for its employees was \$28,829, and actual contributions were \$59,515.

While the actual contributions were not actuarially determined but were a fixed percent of the covered payroll of the participating employees, the annual required contributions were in compliance with the GASB Statement 27 parameters based on the actuarial valuations as of December 31, 2002 and December 31, 2003, the basis for assessing the adequacy of the financing arrangement beginning with the contribution rates for calendar years 2003-2004. The December 31, 2003 actuarial valuation is the most recent valuation.



**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

10. EMPLOYEE RETIREMENT PLAN, Continued

**Actuarial Valuation Information**

Actuarial Valuation Date	December 31, 2001	December 31, 2002	December 31, 2003
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, open
Amortization period	30 years	30 years	30 years
Asset valuation method	long-term appreciation with adjustment	long-term appreciation with adjustment	long-term appreciation with adjustment
Actuarial Assumptions:			
Investment return <sup>1</sup>	8.00%	8.00%	8.00%
Projected salary increases <sup>1</sup>	5.50%	5.50%	5.50%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

**Trend Information**  
**for the Retirement Plan for the Employees of Red River Authority of Texas**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2001	\$ 33,326	184.95%	\$ (76,038)
September 30, 2002	29,968	213.24%	(109,974)
September 30, 2003	28,860	216.99%	(143,736)
September 30, 2004	28,829	206.55%	(174,452)

**Transition Disclosure.** It was determined in accordance with GASB Statement Number 27 that the pension liability was zero at the transition to that statement effective at the beginning of this accounting year, because all actuarially required contributions for the accounting years beginning 1987 up to the beginning of this accounting year have been paid. There was no previously reported pension liability before the transition. Therefore, the difference between the pension liability at transition and the previously reported pension liability is zero.

<sup>1</sup> Includes inflation at the stated rate

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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10. EMPLOYEE RETIREMENT PLAN, Continued

**Schedule of Funding Progress for the Retirement Plan  
for the Employees of Red River Authority of Texas**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll <sup>1</sup> (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12-31-99	\$ 1,943,367	\$ 1,612,636	\$ (330,731)	120.51%	\$ 838,827	(39.43)%
12-31-00	2,185,697	1,798,175	(387,522)	121.55%	861,593	(44.98)%
12-31-01	2,267,734	1,946,080	(321,654)	116.52%	893,002	(36.02)%
12-31-02	2,527,524	2,231,038	(296,486)	113.29%	921,505	(32.17)%
12-31-03	2,207,153	1,810,043	(397,110)	121.94%	860,680	(46.14)%

11. PUBLIC ENTITY RISK POOL

The Authority is exposed to various risks of loss related to injuries to employees, theft of, damage to, and destruction of assets, natural disasters, and errors and omissions. The Authority participates in the Texas Municipal League (TML) Intergovernmental Risk Pool, a risk pool for political subdivisions in Texas. The Authority pays annual premiums to the Risk Pool for worker's compensation, property, and liability coverage. The Risk Pool provides that they will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$5 million for workers' compensation, \$7 million for property, and ranging from \$1 million to \$5 million for liability, based on limits purchased by the member. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past five fiscal years. The Authority continues to carry commercial insurance for employee health coverage.

A publicly available financial report from Texas Municipal League that includes financial statements and required supplementary financial information can be obtained from Texas Municipal League, Intergovernmental Risk Pool, P. O. Box 149194, Austin, Texas 78714-9194.

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<sup>1</sup>The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS September 30, 2004

### 12. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Significant financial data for identifiable activities of major enterprise funds are reported in the statements for proprietary funds in the basic financial statements section. Significant financial data for identifiable activities of nonmajor enterprise funds as of and for the year ended September 30, 2004, are as follows:

	Direct Financing Arrangements	Industrial Development Authority	Total Nonmajor Enterprise Funds
<b>Condensed Statement of Net Assets</b>			
Assets:			
Current assets	\$ 29,506	\$ 90	\$ 25,596
Restricted assets	0	38,750	38,750
Total assets	29,506	38,840	68,346
Liabilities:			
Current liabilities	29,506	90	29,596
Total liabilities	29,506	90	29,596
Net assets:			
Unrestricted net assets / (deficit)	0	38,750	38,750
Total net assets	0	38,750	38,750
<b>Condensed Statement of Revenue, Expenses, Changes in Net Assets</b>			
Operating revenues	37,025	0	37,025
Other operating expense	0	(923)	(923)
Operating income (loss)	37,025	(923)	36,102
Nonoperating revenues (expenses)			
Investment earnings	0	923	923
Transfers out	(37,025)	0	(37,025)
Change in net assets	0	0	0
Beginning net assets	0	38,750	1,138,750
Ending net assets	\$ 0	\$ 38,750	\$ 38,750

**RED RIVER AUTHORITY OF TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**September 30, 2004**

12. SEGMENT INFORMATION FOR ENTERPRISE FUNDS, Continued

	Direct Financing Arrangements Fund	Industrial Development Authority Fund	Total
<b>CONDENSED STATEMENT OF CASH FLOWS</b>			
Net cash provided (used) by:			
Operating activities	\$ 30,225	\$ (996)	\$ 29,229
Noncapital financing activities	(30,225)	0	(30,225)
Capital and related financing activities	0	0	0
Investing activities	0	10,463	10,463
Net increase (decrease)	<u>0</u>	<u>9,467</u>	<u>9,467</u>
Beginning cash and cash equivalents	<u>0</u>	<u>3,387</u>	<u>3,387</u>
Ending cash and cash equivalents	<u><u>\$ 0</u></u>	<u><u>\$ 12,854</u></u>	<u><u>\$ 12,854</u></u>

13. ACCUMULATED DEFICITS

At September 30, 2004 the Maintenance Division had increased its cumulative deficit by \$3,953 from (\$719) to (\$4,672) from the prior fiscal year. The increase was the result of increased depreciation cost due to the purchase of a new backhoe and trailer and increased labor costs resulting from hiring an additional employee during the previous fiscal year.